JEREZ ENERGY

INTERNATIONAL INC.

1997 ANNUAL REPORT

President's Message

The past year has been a long and frustrating one for both management and shareholders. In early 1997 and with great optimism, Jerez signed a landmark deal to participate in the development of two existing light oilfields in the Port Harcourt area of south-eastern Nigeria. Because of its uniqueness, the deal was subject to approval by the Nigerian government. Neither the company nor its indigenous partner Niger Delta Petroleum of Lagos expected this to be a particularly onerous undertaking. Unfortunately this has not proven to be the case. Fifteen months after signing the Joint Venture Agreement, the company is still awaiting government consent. This has been, to say the very least, a frustrating experience. Niger Delta continues to actively pursue the necessary approval and remains confident that it is forthcoming.

A more positive development has occurred recently in the heavy oil/bitumen area. The Nigerian government has, at last, enacted legislation that provides a framework for any future development in the Bitumen belt. With this framework in place, the government is expected to formally award concession blocks in the next several months. Jerez, through its partner Rofem Industries of Lagos, previously held an exploration license and fulfilled its earning obligation under the Joint Venture Agreement. Further development was deferred awaiting full title from the government . Jerez and its partners are now applying for up to six concession blocks, each having terms ranging between 25 and 33 years. Upon successful acquisition of one or more blocks, Jerez and its partners will attempt to obtain a large partner to assist in the development. Several large companies have already expressed interest in the project.

During the past year Jerez has been very actively investigating other opportunities and has reviewed many deals in various countries. The company went as far as sending due diligence teams to Bolivia and Indonesia. Ultimately, Jerez passed on these opportunities due to either questionable reserves, a large signing bonus required, or the extreme wildcat nature of exploration blocks. Your company believes that the Nigerian project remains the most attractive oil & gas play it has seen. The Nigerian light oil concessions offer low risk development with very high upside potential for step out and exploratory drilling. Unfortunately the lack of government approval has prevented us from realizing this potential. We will continue to work towards obtaining the consent required and in the meantime we will continue to evaluate other opportunities and work earnestly towards creating value for our shareholders.

JEFFREY J. SCOTT
President and Chief Operating Officer

AUDITORS' REPORT

To the Shareholders of
Jerez Energy International Inc.

We have audited the consolidated balance sheets of Jerez Energy International Inc. as at December 31, 1997 and 1996 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants
Calgary, Canada
April 24th, 1998

JEREZ ENERGY INTERNATIONAL INC.

Consolidated Balance Sheets

		Year ended December 31
	1997	1996
Assets		
Current:		
Cash and short term deposits (Note 8)	$ 502,040	$ 2,356,264
Accounts receivable	69,091	-
Marketable securities, market value $16,750 (1996 - $ 65,500)	13,294	13,294
	584,425	2,369,558
Petroleum property interests (Notes 2 and 3)	9,683,563	8,372,448
Mineral properties (Notes 2 and 4)	72,294	116,001
Other	67,105	67,548
	$ 10,407,387	$ 10,925,555
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Note 5)	$ 79,111	$ 196,838
Shareholders' equity:		
Share capital (Note 7)	12,924,920	12,502,441
Deficit	(2,596,644)	(1,773,724)
	10,328,276	10,728,717
Continuing Operations (Note 1)		
Commitments (Note 3)		
	$ 10,407,387	$ 10,925,555

Approved by the Board:

_______________ Director

_______________ Director

JEREZ ENERGY INTERNATIONAL INC.

Consolidated Statements of Operations and Deficit

	Year ended December 31	
	1997	1996
Interest income	$ 27,913	$ 145,135
Expenses:		
Salaries and benefits	269,439	215,172
Travel and promotion	198,865	190,540
General and administrative	200,302	131,894
Consulting	34,469	88,903
Professional fees	36,909	61,846
Listing, agency fees and shareholder information	45,975	28,728
Depreciation	21,167	21,910
Abandonment of mineral properties (note 4)	43,707	-
	850,833	738,993
Net loss for the year	(822,920)	(593,858)
Deficit at beginning of year	(1,773,724)	(1,179,866)
Deficit at end of year	$ (2,596,644)	$ (1,773,724)
Loss per share	$ (0.03)	$ (0.02)

JEREZ ENERGY INTERNATIONAL INC.

Consolidated Statements of Changes in Financial Position

	Year ended December 31 1997	1996
Cash provided by (used for):		
Operating activities -		
Net loss for the year	$ (822,920)	$ (593,858)
Add (deduct): Items not requiring a current outlay of cash -		
Depreciation	21,167	21,910
Abandonment of mineral properties	43,707	-
	(758,046)	(571,948)
Net change in non-cash working capital items	(186,818)	27,175
	(944,864)	(544,773)
Financing activities:		
Issuance of shares for cash	422,479	6,111,733
Investing activities:		
Expenditures on petroleum property interests	(1,311,115)	(6,179,268)
Other	(20,724)	(76,655)
	(1,331,839)	(6,255,923)
Decrease in cash and short term deposits for the year	(1,854,224)	(688,963)
Cash and short term deposits at beginning of year	2,356,264	3,045,227
Cash and short term deposits at end of year	$ 502,040	$ 2,356,264

JEREZ ENERGY INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997

Nature of Operations

Jerez Energy International Inc. (the "Company"), is engaged in the business of international petroleum exploration and development in Nigeria, West Africa.

1. Continuing operations

The Company is in the process of exploring its oil and gas interests. The ultimate recoverability of the Company's investment in its oil and gas interests is dependent upon the existence and discovery of economically recoverable oil and gas reserves, confirmation of the Company's interest in the oil and gas interests, the ability of the Company to obtain necessary financing to complete development of the interests, and upon the ability to attain future profitable production.

The Company has acquired both a participation interest in heavy oil and signed a joint venture agreement for conventional crude oil in Nigeria, West Africa. Notwithstanding these agreements, government consent must be issued in order to conduct development and production activities within the country. Fifteen months after signing the joint venture agreement, the Company is still awaiting government consent. In order to meet long-term obligations under licensing agreements, the Company will require additional funding. The recoverability of the investments in the Company's oil and gas interest and the ability to perform under the Production Sharing Agreement is dependant upon the Company's ability to conclude a successful financial arrangement.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a company with continuing operations. Should the Company not be able to meet the objectives described above and have continued operations, certain assets and liability accounts would require adjustment and reclassification.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation -

The consolidated financial statements include the accounts of the Company and the following subsidiary companies:

Jerez Energy (Barbados) Inc. ("Jerez Barbados")	100%
Jerez Nigeria Limited	100%
Jerez Energy Inc.	100%
Jerez Energy (Cayman) Inc.	100%
Ferret Exploration Ltd.	100%
Oilexco Inc.	100%

(b) Petroleum Property Interests -

The Company follows the full cost method of accounting for petroleum operations whereby all costs of exploring for and developing petroleum reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment and related overhead costs, related to unproved properties and major development projects. Such costs, net of proceeds from minor disposals

of property, are accumulated and will be depleted on a country-by-country basis using the unit-of-production method based upon estimated proved net reserves.

Gains or losses are recognized upon the sale or disposition of developed properties when proved reserves of those properties are significant in relation to the Company's total reserves.

Costs accumulated in each cost centre are limited to the future net revenue from estimated production of proved reserves plus the value of unproved properties and major development projects. Costs accumulated in all cost centres are further limited, under the enterprise ceiling test, to the aggregate future net revenues from estimated production of proved reserves plus the aggregate value of unproved properties and major development projects, less the aggregate estimated future general and administrative costs, site restoration costs, financing costs and income taxes for all cost centres.

(c) Foreign Currency Translation -

Foreign currency transactions and balances of the Company are translated using the temporal method. Under this method, monetary assets and liabilities are translated at year end rates, non-monetary assets and liabilities at rates prevailing at the transaction dates. Revenues and expenses are translated at the average rate for the year. Gains or losses resulting from transactions designated as hedges of expenditures in foreign currencies are included in the cost of the item being hedged.

(d) Mining Activities -

All costs related to mineral exploration are capitalized on a property-by-property basis. Such costs include mining claim costs and exploration, development and mining related administrative expenditures, net of any recoveries. The Company capitalizes costs incurred to explore and develop its mineral properties until the mineral properties are explored to a point where it has been determined that the mineral properties are capable of being economically developed through assessable exploration results or measurable reserves. Until this determination has been made, in management's opinion, it is impractical to assess the realization of exploration and development costs capitalized to the mineral properties.

The costs related to a property from which there is production, together with costs of production equipment, will be depleted and amortized on the unit-of-production method based upon estimated reserves as determined by independent consulting engineers. When there is little prospect of future work on a property being carried out by the Company or its partners, the costs of that property will be charged to earnings.

All of the Company's mining activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(e) Restoration Costs -

Estimated costs of restoring the mineral and petroleum properties are accrued and charged to earnings when a decision is made to abandon the properties or on the unit-of-production method when a property commences production.

3. Petroleum Property Interests

	1997	1996
Acquisition costs	$ 602,574	$ 602,574
Deferred exploration and development	6,117,536	4,806,421
Exploration equipment	2,963,453	2,963,453
	$ 9,683,563	$ 8,372,448

(a) **Heavy Oil**

During the year ended December 31, 1995, Jerez Barbados acquired a participating interest in a 468,500 acre onshore heavy oil/bitumen concession (Concession II) located in the Benin Basin region of South-Central Nigeria, West Africa. Under the terms of the acquisition agreement, the Company issued 1,000,000 common shares, at $0.50 per share, and paid U.S.$75,000 to Collier Venture Ltd. to acquire Collier's joint venture working interest. In accordance with the terms of the joint venture agreement, the Company is to provide technical expertise to the operator, Rofem Industries Inc. ("Rofem"), and is initially responsible for the costs of exploration and development. Revenue and costs from the sale of heavy oil/bitumen will be distributed, on a before tax basis, as follows:

	Costs	Revenue
i) Before Payout		
Jerez Barbados	100%	70%
Nigerian Indigenous Partner	0%	10%
Government of Nigeria	0%	20%
ii) After Payout		
Jerez Barbados	75%	60%
Nigerian Indigenous Partner	25%	20%
Government of Nigeria	0%	20%

As specified in the agreement, Jerez Barbados completed a work program which includes geophysical surveys, drilling and completing five test wells, conducting geological and geochemical studies, and conducting studies into the feasibility of extracting bitumen from the concession before July 31, 1996 as required. During 1996, Jerez Barbados complied with their work obligations when it had expended U.S. $1,000,000 on the above work obligations, thereby earning its interest of Rofem's Concession II.

It is the intention of the Company and Rofem to establish a separate entity which will conduct business operations in road and other construction activities utilizing bitumen. The parties have agreed that all revenues and costs related to these operations will be shared, on an after tax basis, as follows:

Jerez Barbados	25%
Nigerian Indigenous Partner	75%
	100%

(b) **Conventional Crude Oil**

In February 1997, Jerez Nigeria Limited, signed a joint venture agreement with Niger Delta Petroleum Resources Limited (NDPR), an indigenous Nigerian company, for participation in the development of two oilfields which are being farmed out by the Nigerian National Petroleum Corporation (NNPC) and Chevron Nigeria Limited (Chevron). Jerez acquired a participating interest for exploration and development of the Ogbelle oilfield in OML54 as well as a right of first refusal for an equitable interest in the Omerelu oilfield in OML53. Jerez has agreed to pay 37.5% of costs to earn a 37.5% interest less a 5.25% overriding royalty and a 20% net profits interest.

4. Mineral Properties

		1997		1996
Carat	$	72,294	$	72,294
Snare Lake		-		43,707
	$	**72,294**	$	**116,001**

(i) *Carat*:

Pursuant to a joint venture agreement between the Company and Tyler Resources Inc. ("Tyler"), the Company holds a 33 1/3% interest in the Carat properties in the North West Territories. Subsequent to year-end, the Company sold its interests in these properties to a third party in exchange for 500,000 common shares of the third party company at an ascribed value of $0.18 per common share.

(ii) *Snare Lake Prospect*:

These mineral claims were abandoned in 1997 and consequently the costs associated were written off.

5. Related Party Transactions

a) Due to Related Parties -

At December 31, 1997 there was an accrued liability of $30,000 owed to a Company director for consulting services rendered.

b) Management Fees and Legal Services -

A Company director and a company controlled by an officer of the Company have provided consulting and corporate services during the year ended December 31, 1997 for the amount of $44,895 (1996 - $36,071).

6. Income Taxes

(a) The Company and its Canadian subsidiaries have accumulated losses for Canadian income tax purposes of approximately $1.9 million and losses for United States income tax purposes of approximately $70,000, the related benefits of which have not been recognized in the consolidated financial statements. Unless sufficient taxable income is earned by the Company and its subsidiaries these losses will begin to expire in 1998.

(b) The Company also has available for deduction, at annual rates as provided by the Canadian Income Tax Act, in determining taxable income of future years, approximately $950,000 of mineral exploration expenditures.

(c) A Company subsidiary, Jerez Barbados, has expended $9,080,989 to December 31, 1997 on equipment and other costs related to the Nigerian petroleum properties. The Nigerian petroleum properties will be subject to Nigerian taxation, the form of which is yet to be determined by the Nigerian Government. The Company anticipates Nigerian taxes to be in the form of a royalty, a profits tax or some combination of both.

7. Capital Stock

(a) Authorized -

The authorized share capital of the Company consists of an unlimited number of common and preferred shares.

(b) Common shares issued -

	Number of Shares	Amount
December 31, 1995	19,966,025	$ 6,390,708
Issued for cash on exercise of stock purchase options	650,000	203,400
Issued for cash on exercise of stock purchase warrants	6,058,333	5,908,333
December 31, 1996	26,674,358	$12,502,441
Issued for cash on exercises of stock purchase options	569,500	422,479
December 31, 1997	27,243,858	$12,924,920

(c) Outstanding Stock Purchase Options and Warrants -

As at December 31, 1997 the Company had outstanding stock purchase options and warrants as follows:

Expiry Date	Number of Shares	Exercise Price Per Share
April 28, 2000	350,000	$ 0.47
November 27, 2000	758,000	1.04
June 26, 2001	502,500	0.62
October 24, 2001	100,000	0.90
December 6, 2001	355,000	1.15
July 15, 2002	50,000	0.95
	2,115,500	

8. Financial Instruments

Cash and short term deposits as at December 31, 1997 include U.S. $54,273. The fair value of financial assets and liabilities as at December 31, 1997 and 1996 is approximately equal to the carrying value.

SUPPLEMENTARY MAIL LIST
RETURN CARD

NOTE: If you wish to be included in the Supplementary Mailing List of Jerez Energy International Inc. in order to receive its interim financial statements for the ensuing year, please complete and return this card.

TO: Jerez Energy International Inc.
400, 708 - 11th Avenue S.W.
Calgary, Alberta
T2R 0E4

The undersigned certifies that the undersigned is the owner of securities of Jerez Energy International Inc. and requests that the undersigned be placed on the Supplementary Mailing List of Jerez Energy International Inc. for its interim financial statements for the ensuing financial year.

DATED: ____________________________

____
Name (please print)

____
Address

____

____
Signature

____
Name and title of person signing if different from name above.